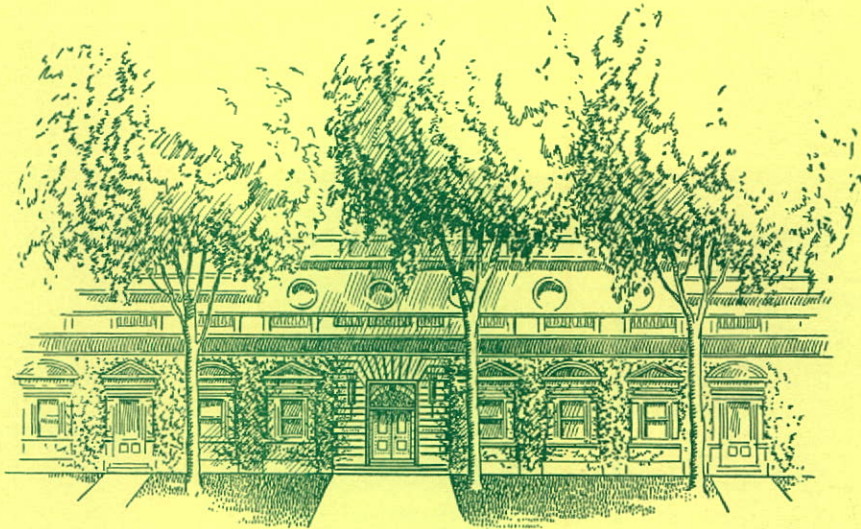




HEAD OFFICE: WALKERVILLE, ONTARIO

Annual Report of
Hiram Walker-Gooderham & Worts *Limited*

For the year ended August 31
1942



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Annual Report of
HIRAM WALKER-
GOODERHAM & WORTS
LIMITED

For the year ended August 31, 1942



The company is proud of its representation in the armed
forces of the United States, Canada and Great Britain.
From 4,981 employees, of which 3,021 are male,
503 have joined the colors.



HIRAM WALKER - GOODERHAM & WORTS LIMITED

WALKERVILLE, ONTARIO, CANADA

Incorporated December 31, 1926, under the laws of the Dominion of Canada

BOARD OF DIRECTORS

H. C. HATCH
HOWARD R. WALTON
T. H. GIBBONS

J. F. LASH, K.C.
F. K. MORROW
E. D. GOODERHAM
LEIGH M. MCCARTHY

R. A. MCKINLAY
GEO. T. CHISHOLM
B. E. FORD

EXECUTIVE COMMITTEE

H. C. HATCH

T. H. GIBBONS

HOWARD R. WALTON

OFFICERS

*President and Chairman of
the Board*

H. C. HATCH

Secretary
FLETCHER RUARK

Vice-President

HOWARD R. WALTON

Comptroller

B. E. FORD

Assistant Secretary

W. G. GOOK

Vice-President

T. H. GIBBONS

Treasurer

H. O. C. PALMER

AUDITORS

PRICE, WATERHOUSE & CO.
TORONTO, NEW YORK & LONDON

BANKERS

THE BANK OF TORONTO, TORONTO, ONT.
GUARANTY TRUST CO. OF NEW YORK, NEW YORK, N.Y.

TRANSFER AGENTS

NATIONAL TRUST CO. LIMITED, TORONTO, ONT.
BANKERS TRUST CO., NEW YORK, N.Y.

REGISTRARS

THE TORONTO GENERAL TRUSTS CORPORATION, TORONTO, ONT.
GUARANTY TRUST CO. OF NEW YORK, NEW YORK, N.Y.

REPORT OF DIRECTORS

for the fiscal year ended August 31, 1942

To the Shareholders of

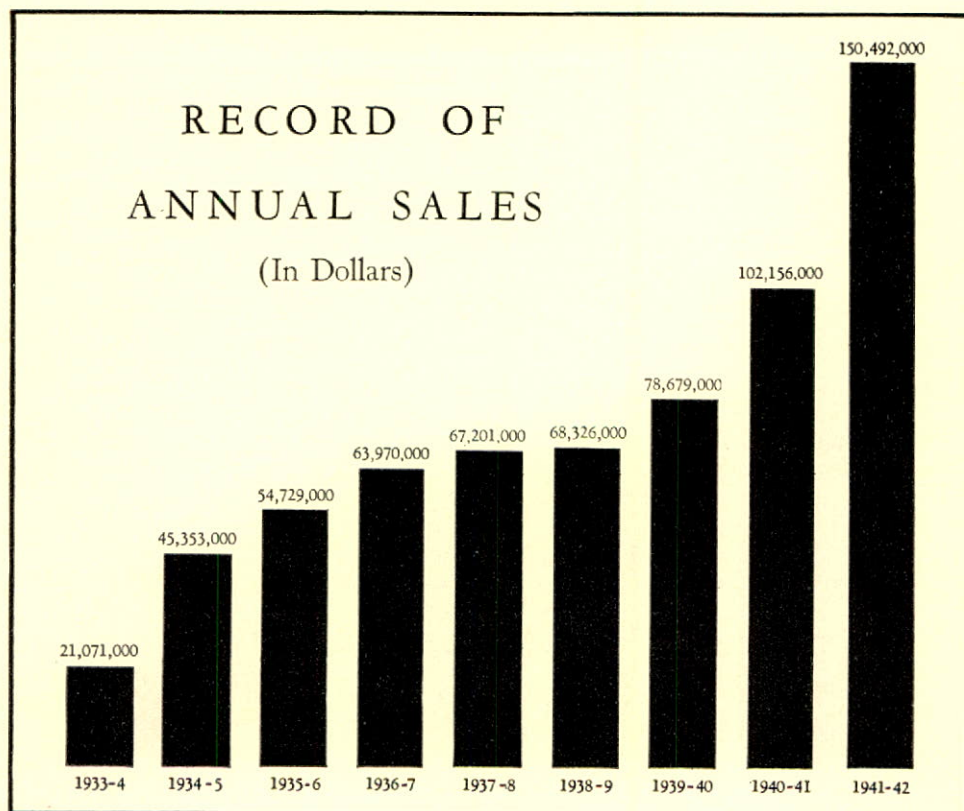
HIRAM WALKER-GOODERHAM & WORTS LIMITED:

Another year of world conflict has served to emphasize still further the essential role that our industry generally is playing in the fight to preserve democratic freedom. With the steady development of global war, hugely increased alcohol production has become imperative to meet the growing requirements of the United Nations everywhere for explosives, synthetic rubber, and a whole host of other medical and scientific supplies. The fact that in the United States and Canada well-organized distilleries have been available to meet this situation without loss of time and in important measure must be recognized by impartial observers as one of the more fortunate circumstances that have favored the Allied cause.

In the enlarged war effort that is engaging the distilling industry as a whole, your company, by reason of its exceptional productive facilities, is playing its appropriate part. As from October 8th in the United States and November 1st in Canada we have ceased distilling for beverage purposes and our entire resources are devoted to war production. Such a change naturally cannot be carried out without major dislocation of all our normal operations. Especially do we face a situation in which, for some time to come, all our beverage sales will have to be made from stocks on hand. While our inventories are fortunately substantial, it seems the part of wisdom to your directors to husband them with due prudence. To this end we are adopting a policy of rationing the company's products to its various markets. This course inevitably will result in a curtailment of sales and therefore of earnings so long as the policy is continued. At the same time your directors are convinced that the substantial considerations in favor of conservation and orderly utilization of our inventories will outweigh in the long run what might appear at first glance to be the advantages of responding to the pressure of immediate consumer demands.

RECORD OF ANNUAL SALES

(In Dollars)



SALES AND EARNINGS

The record of steadily increasing volume which the company has achieved in recent years has been further enhanced this year by the highest sales and earnings in the history of the company. Net sales increased substantially to \$150,492,421 from \$102,156,227 in the previous year. This increase is accounted for both by larger gallonage and the higher selling prices brought about by increases in the excise tax rates on distilled spirits in the United States and Canada.

The net profit for the year before provision for income and excess profits taxes and for contingencies amounted to \$17,741,916 compared with \$11,051,241 for the preceding year. This improvement was almost offset by the substantially increased provision for income and excess profits taxes for the year of \$9,118,337 as against \$4,129,271 for the previous year.

The balance of net profit for the fiscal year transferred to surplus was \$7,123,579 equivalent to \$9.07 per share of common stock after providing

for dividends on the preference stock. For the preceding year the net profit was \$6,921,970 or \$8.78 per common share.

The profit for the year is after providing \$1,500,000 for contingencies. Your Directors considered it advisable to make this provision in view of the uncertain conditions prevailing in a war time economy.

DIVIDENDS

Dividends of \$3,454,367 were declared during the year. Of this total \$2,893,549 was paid to holders of common stock and \$560,818 to holders of preference stock.

FINANCIAL

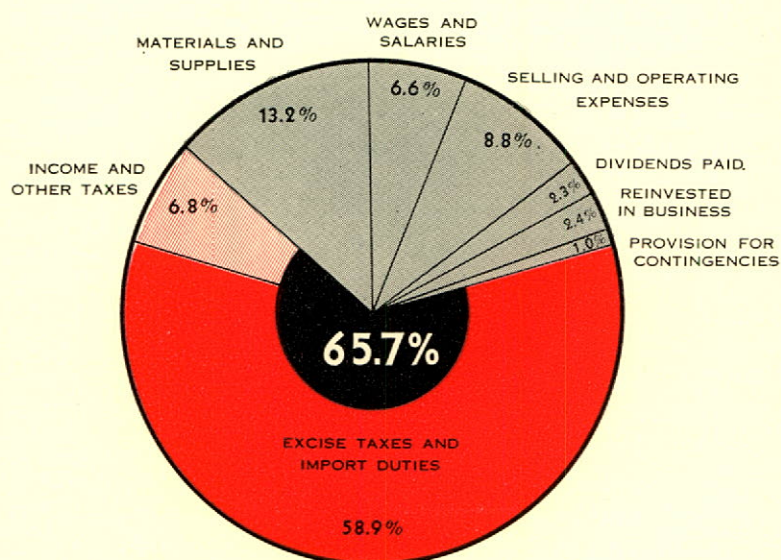
The consolidated financial statements of the company and its wholly owned subsidiaries in Canada, Great Britain and the United States presented herewith, follow the company's usual accounting practice and in conformity with past procedure are expressed in terms of Canadian currency. In stating other currencies in terms of Canadian funds, the general principles of exchange conversion used in the preparation of the consolidated balance sheet as at August 31, 1941 have been employed. Current assets, current liabilities and prepaid expenses have been stated at the official rates in effect August 31, 1942, as established by the Foreign Exchange Control Board of Canada; properties and reserves for depreciation, investments, debentures and debenture stock and unamortized discount and expense applicable thereto, at approximately the rates of exchange prevailing when the assets were acquired or the obligations issued.

With the exception of the provisions for depreciation and for amortization of debenture and debenture stock discount and expense, which were converted at the rates applicable to the relative assets, the consolidated statement of profit and loss has been stated in Canadian currency at the official rates of the Foreign Exchange Control Board of Canada, which rates did not change during the fiscal year.

The net result of all exchange adjustments in consolidation as at August 31, 1942, was a credit of \$847,240 which is shown on the consolidated balance sheet as Foreign Exchange Adjustment in Consolidation.

The assets in Great Britain, substantially all of which are located in Scotland, are subject to foreign exchange and other restrictions. At August 31, 1942 the net assets as included in the consolidated balance

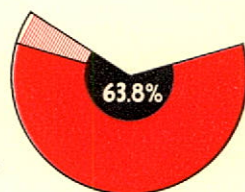
DISTRIBUTION OF THE SALES DOLLAR IN THIS FISCAL YEAR



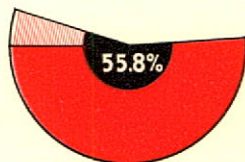
THE COMPANY AS A COLLECTOR AND PAYER OF TAXES

The Company's total tax bill for the year was \$98,734,799 of which \$88,714,989 was for excise and import tax used for general government purposes, including armament. \$10,019,810 went for income and other taxes. The alcoholic beverage industry contributes more than any other toward the federal, state, and provincial treasuries.

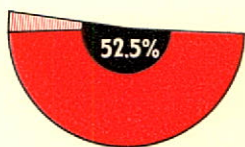
Of the total 1940-1 sales, \$65,182,177 (63.8%) represented taxes, of which \$60,377,777 was for excise and import tax and \$4,804,400 went for income and other taxes.



Of the total 1939-40 sales, \$43,935,587 (55.8%) represented taxes, of which \$41,136,724 was for excise and import tax and \$2,798,863 went for income and other taxes.



Of the total 1938-9 sales, \$35,851,317 (52.5%) represented taxes, of which \$34,018,997 was for excise and import tax and \$1,832,320 went for income and other taxes.



THE COMPANY'S RECENT RECORD

Fiscal Year	Sales	Net Earnings	DIVIDENDS		Surplus at end of Year
			Preference Dividends	Common Dividends	
1933-4.	\$21,071,349	\$3,366,267	\$461,131	\$ ———	\$ 5,594,170
1934-5.	45,353,470	3,165,650	460,818	———	8,244,484
1935-6.	54,729,133	4,796,120	460,818	990,000	10,580,959
1936-7.	63,969,514	6,463,633	460,818	1,443,433	15,140,340
1937-8.	67,201,413	6,284,968	460,818	2,896,016	8,576,950*
1938-9.	68,325,810	5,295,979	534,092	2,896,016	10,687,311
1939-40.	78,678,677	6,065,664	560,818	2,896,016	13,296,141
1940-41.	102,156,227	6,921,970	560,818	2,896,016	16,761,277
1941-42.	150,492,421	7,123,579	560,818	2,893,549	19,994,448

*Goodwill, Processes and Trade Marks of \$9,491,525 written off against Surplus in this year.

sheet presented herewith amounted to \$11,474,601 before deducting an amount of \$6,129,215 in respect of the 4½% guaranteed debenture stock which is guaranteed by Hiram Walker-Gooderham & Worts Limited. Included in the net assets mentioned above are net current assets of \$8,138,831. The net profits attributable to operations in Great Britain for the year ended August 31, 1942, included in the accompanying consolidated statement of profit and loss amount to \$405,676. Under existing government regulations the transfer of such profits to Canada is prohibited.

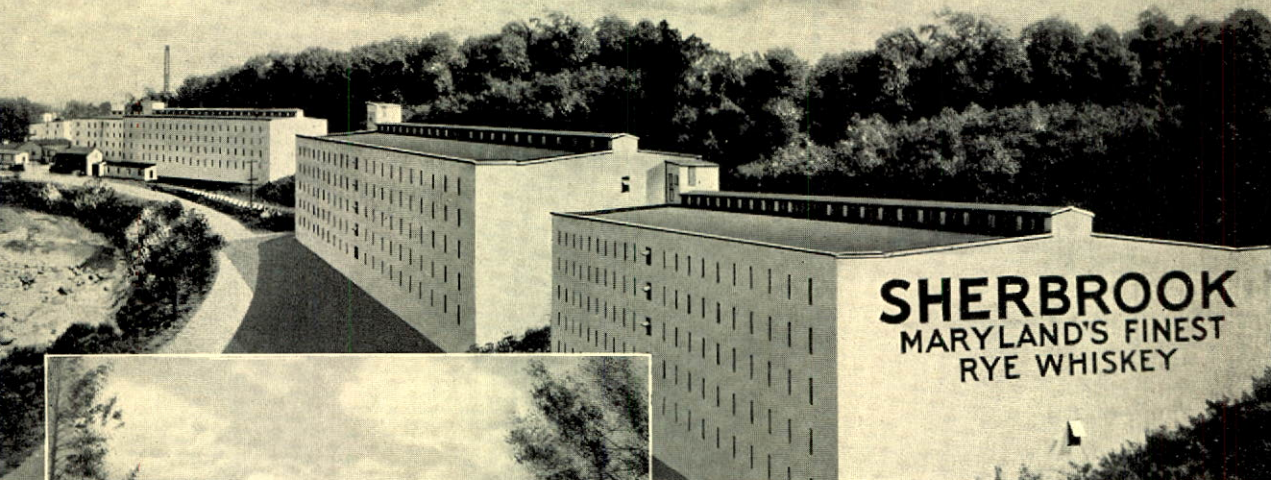
ACQUISITIONS

Hiram Walker & Sons Inc. a subsidiary company in the United States purchased during the year all of the outstanding shares of The Frank L. Wight Distilling Company and of W. A. Taylor & Company.

The excess of the cost of the shares of these two companies over the net book value of such shares has been written off by a charge against Earned Surplus.

OPERATIONS

During the year our plants produced substantial quantities of alcohol for the United States and Canadian governments for use in the manufacture of smokeless powder, synthetic rubber, and other war materials. All plants operated at capacity throughout the year and, in addition to the alcohol produced for war purposes, were able to produce more than enough beverage spirits to replace the gallonage withdrawn from warehouses.



Two views of the Frank L. Wight distillery on Big Gunpowder Falls River, near Loreley, Maryland. The property embodies modern distilling equipment, warehousing for 75,000 barrels, commensurate facilities for bottling and when acquired October 15, 1941, it included about 2,200,000 gallons of whiskey.

Since October 8, 1942 the United States Government has taken the entire production of our plants for war purposes. These plants have a distilling capacity of approximately 22,000,000 wine gallons of 190 proof alcohol per year and in the eight months ended October 8, 1942 produced more than 7,000,000 wine gallons of alcohol for war purposes.

Under an order issued by the Department of Munitions and Supply under date of October 2, 1942, effective November 1, the entire capacity of our plants in Canada has been devoted to the production of alcohol for use in the manufacture of essential war materials and other industrial uses. Throughout the year the Toronto distillery made substantial deliveries of alcohol to the Canadian Government for use in the manufacture of explosives.

SCOTTISH SUBSIDIARIES

Since January 1, 1942 our malt distilleries have been allotted sufficient grain to produce 30% of the quantity produced in the 12 months preceding September 1, 1939. This was a reduction from 33 $\frac{1}{3}$ % allowed for the two preceding years. There has been no production of grain whisky in Scotland since 1940 and the Ministry of Food has indicated that no cereals

will be provided for the production of either malt or grain whisky in 1943. We have experienced no damage to whisky stocks in Scotland since our last report.

GENERAL

During the past year we have had to adjust ourselves almost constantly to new difficulties born of the war. In this process we have worked in the closest association with the various economic and business controls that the Canadian and United States governments have set up. In the field of taxation the distilling industry has continued to be a substantial source of the revenues by which our governments are carrying on the war. Our shareholders will be interested to know that the company paid in taxes to all governments during the year the very large sum of \$98,734,799. This total, furthermore, is exclusive of the very considerable revenues that various state and provincial governments derive from state liquor taxes and from the sale of our products through their own liquor control agencies.

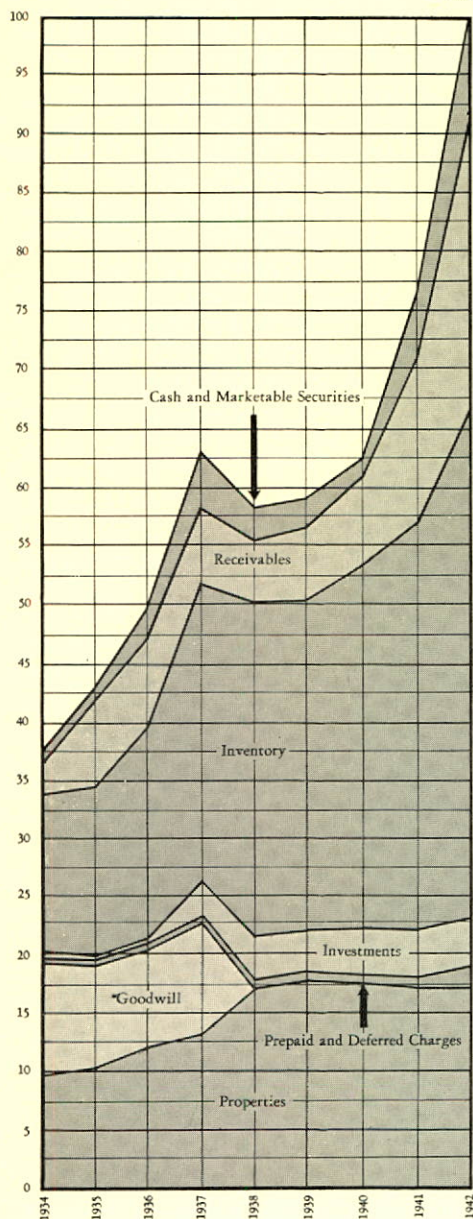
With but one main exception, the wartime pressures operating against us during the year have existed in greater or less degree for all business enterprise. That exception has been the revival of a determinedly militant and largely emotional dry movement in Canada and the United States. Common justice demands that in neither country should pressure groups be permitted to force the settlement of highly controversial social issues while millions of men most vitally interested are absent on military duty. But even if this basic consideration did not underlie the whole question, it would still be true that the prohibition movement should have something of social value to offer in order to justify it in attempting to divert public energies to its cause at a time so critical as the present. Actually, all that it truthfully can offer is its proven and well remembered record of having brought near social disaster in its train when both Canada and the United States tested its theories in long years of practice.

Ever since the repeal of prohibition in the United States the attitude of the general public toward the prohibition problem can perhaps be best described as an attitude of complacency. It must be realized that the dries, although in the minority, are a well organized pressure group and that they constitute a real threat to the continued legal sale of alcoholic beverages. Fortunately there are indications that the recent activities of the prohibitionists have aroused the public from its lethargy. The people are becoming increasingly alive to the situation and so long as they remain alert the dry movement is not likely to achieve any considerable success. Governments generally seem fully seized with the basic truth that prohibition

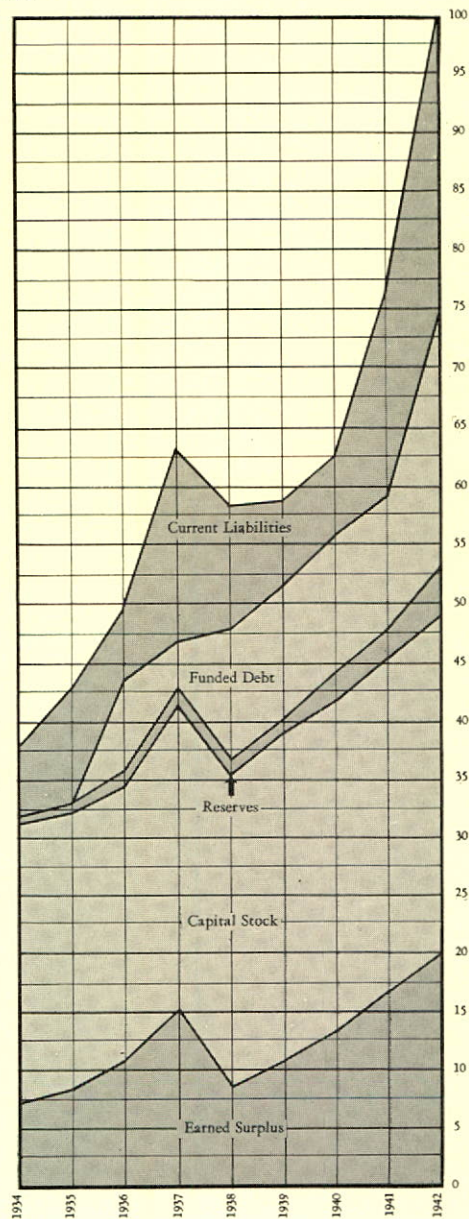
TREND OF ASSETS AND LIABILITIES 1934-42

ASSETS

Millions of Dollars



LIABILITIES



*Goodwill of \$9,491,525 written off against surplus—Aug. 31, 1938

simply will not work and that the evils it breeds are immeasurably greater than any it aspires to cure.

CONCLUSION

In conclusion, it may be useful to recapitulate the four main points of our company's policy for the coming year:

- (1) Plant facilities in the United States and Canada are diverted to 100 percent war production.
- (2) Beverage sales will be curtailed by our policy of rationing our goods to the markets in which they are sold.
- (3) Inventories will be conserved in accordance with the principle of securing to the company the maximum benefits of a policy of orderly utilization.
- (4) Profits inevitably will decline, reflecting the lower volume of sales, but it is expected that they will meet the requirements of the present dividend.

Your Directors wish to record their appreciation of the loyal cooperation of all members of the organization which has contributed in great measure to the Company's continued progress.

By Order of the Board,

H. C. HATCH,

President and Chairman of the Board

Walkerville, Ontario,
November 17, 1942

HIRAM WALKER - GOODERHAM & WORTS LIMITED

and Wholly-owned Subsidiary Companies

Consolidated Statement of Profit and Loss

For the year ended August 31, 1942

(Stated in Canadian currency on the basis set out in financial section of accompanying Directors' Report which also contains data as to earnings in Great Britain)

Net Sales.....		\$150,492,421	
Cost of goods sold.....		113,803,129	
Gross profit on sales before deducting provision for depreciation, etc.....		\$ 36,689,292	
Add—Other income:			
Dividends and interest on investments.....	\$ 195,295		
Agency commissions, purchase discounts, etc.....	352,422	547,717	
			\$ 37,237,009
Deduct:			
Selling and general expenses.....	\$17,104,720		
Executive officers' and directors' salaries. (These officers and directors receive no additional remuneration from any wholly-owned subsidiary company).....	222,470		
Legal fees.....	157,601		
Directors' fees for services as such.....	20,000		
Loss (net) on disposal of capital assets.....	85,897		
Debenture and debenture stock interest.....	613,198		
Amortization of debenture and debenture stock discount and expense....	152,966		
Interest on bank loans.....	91,513		
Provision for depreciation of buildings, plant and equipment.....	962,779		
Premium and expenses on debentures redeemed.....	83,949	19,495,093	
Net Profit for the year before providing for income and excess profits taxes and for contingencies.....			\$ 17,741,916
Deduct:			
Provision for income and excess profits taxes in Canada, the United States and Great Britain (after deducting refundable portion of excess profits taxes in Canada and the United States amounting to \$66,487).....	\$ 9,118,337		
Provision for contingencies.....	1,500,000	10,618,337	
Balance of Net Profit for the year carried to Earned Surplus.....			\$ 7,123,579

NOTE: The companies' proportionate share of the earnings of a subsidiary company not wholly-owned and not consolidated for the fiscal year ended August 31, 1942, exceeded the dividends received from such subsidiary during the same period by an amount of \$138,393.

Consolidated Statement of Earned Surplus

Earned Surplus as at September 1, 1941.....	\$ 16,761,277		
Balance of Net Profit for the year ended August 31, 1942.....	7,123,579		
			\$ 23,884,856
Deduct:			
Excess of cost of shares of subsidiary companies acquired during year over net book value of such shares at dates of acquisition.....	\$ 436,041		
Dividends on preference shares.....	\$ 560,818		
Dividends on common shares.....	2,893,549	3,454,367	3,890,408
Earned Surplus as at August 31, 1942.....			\$ 19,994,448

HIRAM WALKER-GOODERHAM & WORTS LIMITED

Consolidated Balance

*(Stated in Canadian currency on the basis set out
Report which also contains data*

ASSETS

CURRENT ASSETS:

Cash on hand and in banks.....	\$8,819,665	
Government securities—at cost.....	943,000	
(Quoted market value at August 31, 1942—\$939,250)		
Account receivable—trade.....	\$23,703,175	
Notes receivable—trade.....	1,511,437	
Accounts receivable—miscellaneous.....	790,414	
	<u>\$26,005,026</u>	
Less—Reserve for doubtful accounts and allowances.....	1,799,092	24,205,934
Inventories at not exceeding manufacturing or purchased cost in the currencies of the countries in which the subsidiaries are located, as determined on the companies' usual basis and certified to by responsible officials of the companies (stated in Canadian currency at official rates of exchange current at August 31, 1942):		
Spirits (including bottling material on bottled whiskey):		
In Canada and Great Britain:		
Original gauge imperial proof gallons 20,789,393		
In United States:		
Original gauge U.S. proof gallons . . . 56,632,756	\$28,344,073	
Duties and excise taxes on unsold spirits.....	5,804,584	
Grains and raw materials.....	397,817	
Barrels, bottles and supplies.....	8,648,954	43,195,428
Total Current Assets.....		\$77,164,027

CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES.....	357,314
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INVESTMENTS:

Capital stock of a subsidiary company not wholly-owned and not consolidated, at not exceeding cost.....	\$3,475,145	
Common stocks and other investments without quoted market value, at cost.....	165,587	3,640,732

REFUNDABLE PORTION OF EXCESS PROFITS TAXES IN CANADA AND THE UNITED STATES.....	66,487
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LAND, BUILDINGS, PLANT AND EQUIPMENT, at cost, except the plant of Gooderham & Worts Limited, at Toronto, which, based on values reported by Canadian Appraisal Company Limited on February 1, 1924 with subsequent additions at cost, has a net depreciated value of \$1,036,111 after deducting capital surplus of \$245,812. Deduct—Reserves for depreciation on buildings, plant and equipment. 10,491,595	\$27,747,079	17,255,484
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PREPAID AND DEFERRED CHARGES:

Unamortized debenture and debenture stock discount and expense.....	\$ 461,921	
Prepaid licenses and taxes.....	210,498	
Prepaid insurance.....	655,881	
Miscellaneous charges.....	466,706	1,795,006

GOODWILL, PROCESSES AND TRADE MARKS.....	1	\$100,279,051
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NOTE A: The companies' equity in a subsidiary company not wholly-owned and not consolidated has been increased since dates of acquisition as a result of profits less dividends by an amount of \$472,537. A portion of the assets of this company is represented by spirits in Scotland.

AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Sheet, August 31, 1942

in financial section of accompanying Directors'
as to assets in Great Britain)

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:

Bank loans.....	\$9,881,416	
Trade accounts payable.....	2,174,795	
Other accounts and accruals.....	369,860	
Dividend payable September 15, 1942, on preference stock.....	140,204	
Dividend payable September 15, 1942, on common stock.....	721,537	
Debt and debenture stock interest accrued.....	202,612	
Serial debentures of Hiram Walker-Gooderham & Worts Limited and Hiram Walker & Sons, Inc. maturing November 1, 1942 (\$1,000,000 in United States currency).....	\$1,100,000	
Sinking Fund payment due May 15, 1943 in respect of Fifteen-year 4½% guaranteed debenture stock of Hiram Walker & Sons (Scotland) Limited (£95,457).....	422,874	1,522,874
Reserves for federal, state and municipal taxes in Canada, the United States and Great Britain.....	11,009,261	
Total Current Liabilities.....		\$26,022,559

FUNDED DEBT:

Serial debentures of Hiram Walker-Gooderham & Worts Limited and Hiram Walker & Sons, Inc. maturing \$1,000,000 annually November 1, 1943 to November 1, 1956 (\$14,000,000 in United States currency).....	\$15,400,000	
Fifteen-year 4½% guaranteed debenture stock of Hiram Walker & Sons (Scotland) Limited (guaranteed by Hiram Walker-Gooderham & Worts Limited) due May 15, 1953 (secured by deposit with the trustee in Scotland of documents of title to certain whiskey stocks in Scotland included in inventories at \$2,836,609 and by a mortgage on certain properties in Scotland):		
Authorized.....	£2,000,000	
Issued.....	£1,500,000	
Less:		
Purchased through sinking fund.....	£178,700	
Sinking fund payment due May 15, 1943 included in current liabilities above.....	95,457	274,157
	£1,225,843	6,129,215
		21,529,215

DEFERRED INCOME representing gross profit on shipments of Scotch whiskey in excess of quota imposed by a subsidiary company.....	642,500
FOREIGN EXCHANGE ADJUSTMENT IN CONSOLIDATION.....	847,240
RESERVE FOR CONTINGENCIES.....	2,785,114

CAPITAL STOCK, NO PAR VALUE:

Cumulative dividend redeemable preference—redeemable as to principal at \$20 per share (authorized 875,000 shares of which 199,182 shares have been redeemed and cancelled):	
Issued.....	760,000 shares
Redeemed and cancelled.....	199,182 shares
Outstanding.....	560,818 shares \$11,216,360

Common shares:	
Authorized.....	875,000 shares
Issued and outstanding.....	724,004 shares 17,330,180
	\$28,546,540

EARNED SURPLUS, as per statement attached.....	19,994,448
	\$48,540,988

Deduct: 2,467 common shares held by a subsidiary company in the United States—at cost.....	88,565	48,452,423
		\$100,279,051

Approved on behalf of the Board:

H. C. HATCH, *Director*

HOWARD R. WALTON, *Director*

(Signed) B. E. FORD, *Comptroller*
November, 9, 1942

AUDITORS' REPORT

To the Shareholders of

HIRAM WALKER-GOODERHAM & WORTS LIMITED:

We have examined the consolidated balance sheet of Hiram Walker-Gooderham & Worts Limited and its wholly-owned subsidiary companies in Canada, the United States and Great Britain as at August 31, 1942, and the consolidated statements of profit and loss and earned surplus for the year ended on that date, and have obtained all the information and explanations which we required. In connection with our examination we reviewed the system of internal accounting control and the accounting procedures of the companies and examined or tested their accounting records and other supporting evidence, by methods and to the extent we deemed appropriate; the audit of the detailed transactions was confined to limited tests thereof. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and earned surplus are properly drawn up in conformity with accepted accounting principles applied on a basis consistent with that of the preceding year so as to exhibit a true and correct view of the state of affairs of the combined companies as at August 31, 1942, and the results of the companies' operations for the year ended on that date.

Under Section 114 of The Dominion Companies Act we report that the earnings of the non-consolidated subsidiary company are reflected in the accompanying financial statements only to the extent of dividends received from such subsidiary company.

PRICE, WATERHOUSE & CO.,
Chartered Accountants.

Toronto, Ontario, November 9, 1942.

